



99TH GENERAL ASSEMBLY

State of Illinois

2015 and 2016

HB3722

by Rep. Jeanne M Ives

SYNOPSIS AS INTRODUCED:

110 ILCS 805/3-29.11 new

Amends the Public Community College Act. Requires the board of trustees of each community college district to establish an audit committee. Provides that the audit committee shall have a fiduciary duty that includes, but is not limited to, assessing risk and addressing matters such as financial statement reporting, internal controls, and compliance with applicable laws, rules, and board policies. Sets forth provisions concerning members of the committee, the authority of the committee and the committee's chairperson, duties of the committee's chairperson, and the powers and duties of the committee. Effective immediately.

LRB099 10233 NHT 30459 b

FISCAL NOTE ACT
MAY APPLY

STATE MANDATES
ACT MAY REQUIRE
REIMBURSEMENT

1 AN ACT concerning education.

2 **Be it enacted by the People of the State of Illinois,**
3 **represented in the General Assembly:**

4 Section 5. The Public Community College Act is amended by
5 adding Section 3-29.11 as follows:

6 (110 ILCS 805/3-29.11 new)

7 Sec. 3-29.11. Audit committee.

8 (a) Each board shall establish an audit committee. The
9 audit committee shall have a fiduciary duty that includes, but
10 is not limited to, assessing risk and addressing matters such
11 as financial statement reporting, internal controls, and
12 compliance with applicable laws, rules, and board policies.

13 Committee members shall be appointed by the chairperson of
14 the board for a term of 2 years and may be reappointed. The
15 committee shall consist of at least 3 board members, and at
16 least one member of the committee shall qualify as a financial
17 expert. The chairperson of the board shall appoint one of the
18 members of the committee as chairperson of the committee.

19 To be considered a financial expert, such person appointed
20 to the committee must have the following:

21 (1) an understanding of generally accepted accounting
22 principles and financial statements;

23 (2) the ability to assess the general application of

1 such principles in connection with accounting for
2 estimates, accruals, and reserves;

3 (3) experience preparing, auditing, analyzing, or
4 evaluating financial statements;

5 (4) an understanding of internal controls; and

6 (5) an understanding of audit committee functions.

7 If a member of the committee is not a financial expert,
8 then the committee shall hire an independent financial expert
9 to operate as a consultant to the committee to ensure that the
10 committee is fulfilling its fiduciary duty.

11 (b) The committee has the authority to conduct or authorize
12 investigations district-wide through the establishment and
13 operation of an internal audit department. To allow for
14 independent analysis and investigation, the committee shall
15 have unrestricted access to members of management and relevant
16 information, such as books, records, facilities, property, and
17 personnel, in any format, electronic or other, in which the
18 information may exist. Audits or investigations may occur
19 without notice. If circumstances require, district property or
20 information relevant to the investigation may be removed from
21 use during the investigation. The committee may retain
22 independent counsel, accountants, or others to assist it in the
23 conduct of any audit or investigation.

24 The board shall delegate to the committee chairperson the
25 following:

26 (1) The authority to approve all human resources

1 actions related to the director of the internal audit
2 department. All actions taken by the director of internal
3 audit shall include input from the committee, the
4 chairperson of the board, and the community college
5 president. All human resources actions shall follow the
6 policies and procedures of the district.

7 (2) With the approval of the committee, the ability to
8 establish procedures and delegate duties as necessary to
9 conduct the effective and efficient operation of his or her
10 functions.

11 (c) The committee chairperson shall lead the committee in
12 the fulfillment of its mission. The committee chairperson
13 shall:

14 (1) provide the board with reports on the activities of
15 the internal audit department at least quarterly;

16 (2) ensure the committee is provided adequate training
17 to fulfill its role;

18 (3) present the budget for the internal audit
19 department to the board for approval annually, as well as
20 any budget overages;

21 (4) periodically cause the committee to review the
22 committee and internal audit department charters;

23 (5) call committee meetings and approve agendas;

24 (6) be apprised of significant details of audits and
25 investigations in progress;

26 (7) report whistleblower complaints as necessary to

1 the chairperson of the board, in compliance with board
2 policy;

3 (8) approve personnel actions related to the director
4 of internal audit; including appointment, performance
5 evaluations, pay increases, and any disciplinary action
6 taken, including termination; and

7 (9) review monthly progress toward an annual audit
8 plan.

9 With the approval of the committee, the committee chairperson
10 may establish procedures necessary to perform these duties, as
11 well as delegate duties as necessary for the efficient
12 operation of the internal audit department.

13 (d) While the committee has the responsibilities and powers
14 set forth in this Section, it is not the committee's duty to
15 plan or conduct audits or to determine that the district's
16 financial statements are complete, accurate, and in accordance
17 with generally accepted accounting principles. District
18 management is responsible for the preparation, presentation,
19 and integrity of the district's financial statements and for
20 the appropriateness of the accounting principles and reporting
21 policies used. The district's independent auditors are
22 responsible for auditing the district's financial statements.

23 (e) In meeting its responsibilities, the committee shall
24 have the following powers and duties:

25 (1) The committee shall meet 5 times per year or more
26 frequently as circumstances require.

1 (2) The committee may include in its meetings members
2 of management, representatives of the external auditors,
3 members of the internal audit department, and any other
4 personnel employed or retained by the State Board.

5 (3) The committee shall periodically meet with members
6 of management in separate executive sessions, as allowed by
7 law, to discuss any matters that the committee believes
8 should be addressed privately, without the presence of
9 other members of management.

10 (f) The committee shall have the following additional
11 duties:

12 (1) To report committee actions to the board with
13 recommendations, as the committee may deem appropriate.

14 (2) To receive advance notice of all audits, reviews,
15 and audit investigations, whether internal or external.
16 This notice may occur via verbal or written report as
17 accepted by the committee.

18 (3) To review the results of all audits, reviews, and
19 investigations, whether internal or external, for the
20 district, regardless of the source of funding for the
21 activity reviewed. This review may occur via verbal or
22 written report as accepted by the committee.

23 (4) To approve procedures for the receipt, retention,
24 and treatment of complaints received by the district,
25 through any means, regarding accounting, internal
26 accounting controls, or auditing matters, including

1 procedures for the confidential, anonymous submission by
2 district employees of concerns regarding questionable
3 accounting or auditing matters and matters related to
4 misuse, abuse, or misappropriation of resources and
5 alleged financial fraud and supervisory misconduct.

6 (5) To review, on a periodic basis, summary information
7 documenting complaints submitted relating to accounting,
8 internal controls, or misuse, abuse, or misappropriation
9 of resources.

10 (6) To review and evaluate the effectiveness of the
11 district's process for assessing significant risks or
12 exposures and the steps management has taken to monitor and
13 control such risks.

14 (7) To inquire of management, internal auditors, and
15 external auditors about risks facing the district.

16 (8) To review significant findings related to any
17 audit, including management's response, and the timetable
18 for implementation of corrections.

19 (9) To review summary findings from all completed
20 audits and the status of implementing related
21 recommendations until implementation is complete.

22 (10) To review periodically and update the committee's
23 formal charter.

24 (11) To periodically review the internal audit
25 department charter and evaluate the audit scope and role of
26 internal audits.

1 (12) To provide oversight of the director of internal
2 audit and the activities of the internal audit department.

3 (13) To review and appraise the organization structure
4 of the internal audit department, as well as the adequacy
5 of resources, qualifications, and independence of staff
6 members.

7 (14) To approve all internal audit department reports
8 related to audits or investigations, as well as related
9 information, prior to release.

10 (15) To ensure the adequacy of procedures to protect
11 confidentiality of information obtained through the
12 activities of the internal audit department.

13 (16) To review annual audit plans.

14 (17) To review any changes required in the planned
15 scope of an audit plan.

16 (18) To periodically review committee effectiveness.

17 (19) To periodically evaluate with legal counsel the
18 process for determining risks and exposure from asserted
19 and unasserted litigation and claims for noncompliance
20 with laws and rules to determine its effectiveness and to
21 periodically review the status of open litigation or risks
22 and known claims that have not yet been asserted.

23 (20) To review with management and the independent
24 auditor at the completion of an annual audit:

25 (A) the annual financial statements, management's
26 discussion and analysis, related footnotes, the

1 compliance report, findings, and the auditor's report;

2 (B) all alternative treatments of financial
3 information that have been discussed with management;

4 (C) critical accounting policies and practices in
5 place;

6 (D) all significant written communications between
7 the auditor and management, such as management letter
8 comments and the schedule of unadjusted differences;

9 (E) any significant changes required in an audit
10 plan; and

11 (F) other matters related to conduct, which should
12 be communicated to the committee under generally
13 accepted auditing standards.

14 (21) To review the scope and approach of the annual
15 audit with the independent auditors.

16 (22) To assess an external auditor's process for
17 identifying and responding to key audit and internal
18 control risks. The external auditor shall have direct
19 access to the committee and shall meet privately without
20 members of management present at least once during the
21 course of an audit.

22 (23) To receive communications directly from the
23 external auditor regarding any matters that arose during
24 the course of his or her audit.

25 (24) To report regularly to the full board any issues
26 that arise with respect to:

1 (A) the quality or integrity of the district's
2 financial statements, not to duplicate communications
3 and activities reported through the external audit;

4 (B) the performance and independence of the
5 district's external auditors;

6 (C) the performance of the internal audit
7 function; and

8 (D) any other matters in the committee's
9 performance of its duties that the committee views
10 important to present to the full board.

11 Section 99. Effective date. This Act takes effect upon
12 becoming law.